
AUDIT NEWSLETTER 1999

City of Tucson - Audit Division (520) 791-4681 Fax (520) 791-4344

December 1999

This newsletter is to help you collect and pay the proper City of Tucson taxes. Listed below are areas where we observed problems during audits. Please check with the State of Arizona for compliance to State law.

RENTAL - REAL PROPERTY

FINANCE CHARGES

Finance charges on receivables are considered late charges and are part of taxable income.

TAX ON REAL PROPERTY

The City tax rate on non-residential real property rental income is two percent (2%). The State of Arizona no longer taxes this activity. Do you personally lease property to "your" corporation? If so, it is taxable. Extra charges for cleaning, common area maintenance, forfeited security deposits, late payment charges, and utilities (that are not separately metered) are all taxable. Real property taxes paid to the Pima County Treasurer by the tenant regardless if paid directly to Pima County or to the landlord are part of taxable income. Failure to report this income has been a problem. Rentals to all governmental entities (except Davis Monthan Air Force Base) are taxable. Rentals to all non-profits are taxable except to non-profit primary healthcare facilities that provide the landlord with annual exemption letters from the Arizona Department of Revenue and the City of Tucson. We have a brochure we can send you regarding real property rentals. Just call us at 791-4681 and ask for the "real property brochure".

RENTAL - PERSONAL PROPERTY

FINANCE CHARGES

Finance charges on receivables are considered late charges and are part of taxable income.

CONTRACTING

ANNEXATION DEDUCTION

A three-year exemption exists for construction in newly annexed areas. Please note that this annexation exemption is NOT allowed for jobs done on properties owned by a government entity. Resources available to you in keeping up with the annexations include: City Clerk (791-4213), Planning and Zoning (791-4571), and the Audit Division (791-4681).

RETAIL

RESALES HANDLED THE SAME REGARDLESS OF CUSTOMER SITE

The documentation you should obtain at the time of a resale transaction is the same whether your customer is from any state, Canada, Mexico, or other foreign country. You must obtain their business name and full address. Always get a statement from the buyer that the items being purchased are to be resold in the buyer's ordinary course of business. Be reasonably prudent and act in good faith that the claim is valid. Obtaining business license numbers issued by the state and local government is helpful. Just getting a license number does not make the transaction exempt. A properly completed Arizona Department of Revenue resale form is acceptable to the City of Tucson.

CUSTOMERS LIVE OUTSIDE ARIZONA?

If the customer is on your premises or places the order from anywhere within Arizona, even if they are a non-resident, the order is a taxable local sale. If you are a retailer and wish not to pay us tax on your sales to non-residents, you must receive the order across state lines, **AND** you must ship the goods to your customer out of state (documentation of both is required). For shipments to Mexican Nationals, you may choose to ship goods to a Custom Broker in Arizona (an acceptable method) who will then transport the goods across the Mexico/U.S. border. Shipments to anyone within Arizona, regardless of where they live, are taxable. This includes shipments to Canadians or Mexican Nationals when shipped to any point within Arizona. Motor vehicle dealers have just one requirement of delivering the vehicle out of state.

MEALS TO THE NEEDY AND INDIGENT

Effective **January 1, 2000**, sales of food, beverages, condiments and accessories to a nonprofit charitable organization that is qualified as an exempt organization under 26 U.S.C. Section 501(c)(3) and regularly serves meals to the needy and indigent on a continuing basis at no cost, are exempt from the City's business privilege tax. Accessories include plastic plates, plastic eating utensils, napkins, paper cups, drinking straws, paper sacks or other disposable containers which facilitate the consumption of food. Other than for the exemptions noted above, sales to churches and non-profit organizations **continue** to be subject to the City's privilege tax.

ALL BUSINESSES

CONSUMABLE SUPPLIES

Sales of paint strippers, paint thinners, tile strippers, cleaners, deodorizing agents, fire restoration cleaners, degreasers, floor preparation chemicals, and other similar consumable products are taxable transactions. Customers who **use** these kinds of products in the ordinary course of their business can **not** purchase these items tax exempt (for resale).

BAD DEBT DEDUCTION

If you report on an accrual basis, you are eligible to take a deduction for bad debt. Be sure to only include it in the month of write-off and only deduct that portion of bad debt that was included in your taxable income. If monies are subsequently received on invoices that have been included in your bad debt deduction, you are required to include them in gross income the month that you receive payment. The taxable portion of bad checks (NSF) is deductible in the month you receive notice (cash or accrual). Collections on NSF checks are reportable in the month they are paid.

DAVIS MONTHAN AIR FORCE BASE

Don't forget to take your sales to Davis Monthan Air Force Base as a deduction if you received income from on base construction contracting (15), providing utility service (04), telecommunication (05), and restaurant activities (11), or if you engage in retail (17) sales to DMAFB from anywhere within Tucson. (City Only)

DO YOU HAVE TAX QUESTIONS?

If you have tax questions, please call 791-4681, Monday through Friday from 8 a.m. until 5 p.m. If you would like to receive a written response to your questions regarding unusual transactions, send your **detailed** explanation of the transaction to:

Revenue Administrator
City of Tucson
PO Box 27210
Tucson, AZ 85726-7210

WEB PAGE: www.ci.tucson.az.us

This is the City of Tucson's home page. Explore the many interesting and informative pages for departments and other items.

You can access the Tucson Code, which includes the **Business Privilege (Sales) Tax Code**, from at least two city departments, Finance and City Clerk's Office.

From the home page, access "Departments" and "click" on Finance Department (www.ci.tucson.az.us/finance/). You will also find the Occupational License Tax Code Sections, Tax Information Brochures, Newsletters, Business Privilege Tax Return Forms, 17 Step-Business License Process, and other information and guides.

If you enter the City Clerk's Office page, "click" on TUCSON MUNICIPAL CODE and go to PART II – TUCSON CODE. The Regulatory License requirements are in Chapter 7. The Occupational License Tax, Privilege (Sales) Tax, and Public Utility Tax laws are in Chapter 19.

When you are ready to review a specific topic, enter the word(s) in the text box in the lower left screen. "Click" on SEND QUERY. The screen will come back with the number of HITS to the left of each area that has the word(s) you requested. "Click" on the "+" before PART II – TUCSON CODE. Scroll down to the underlined CHAPTER 19. "Click" on the "+" before CHAPTER 19. "Click" on "+" before Article II Privilege and Excise Tax. "Click" on NEXT HIT (lower left) until you locate the desired code section. It is easier than it looks. Try it!

TAX SEMINARS

Seminars with emphasis towards licensing and reporting requirements are given on the dates and at the locations listed below. ADOR will also be speaking.

Main Library	Wilmot Library
<u>101 North Stone Avenue</u>	<u>530 North Wilmot Road</u>
March 9, 2000	January 13, 2000
July 13, 2000	May 11, 2000
November 9, 2000	September 14, 2000

These seminars start at 9:00 a.m. and end by 12:00 Noon. Please call us at 791-4681 to register. We will need your name and how many will be attending. At that time we will confirm the time, location, and tell you about parking availability.

1999 AMENDMENTS TO THE MODEL CITY TAX CODE

A summary of the 1999 amendments to the Tax Code is included with the December 1999 Tax Returns. The Mayor and City Council approved these changes on November 22, 1999. Most of these changes become effective January 1, 2000. PLEASE READ the summary to determine how the changes affect you.